

State Budget Update

**Bethany Wicksall, Deputy Director
House Fiscal Agency**

**Michigan School Business Officials
January 18, 2017**



Revenue Update

January 2017 Consensus Revenue Estimates

(Dollars in Millions)

	FY 2015-16				FY 2016-17			
	Total	\$ Chg from May	\$ Chg from FY 15	%Chg from FY 15	Total	\$ Chg from May	\$ Chg from FY 16	%Chg from FY 16
School Aid Fund	\$12,118.7	\$51.3	\$371.6	3.2%	\$12,457.0	\$54.6	\$338.3	2.8%
General Fund/ General Purpose (GF/GP)	<u>\$10,015.4</u>	<u>\$281.3</u>	<u>(\$25.5)</u>	<u>(0.2%)</u>	<u>\$10,290.1</u>	<u>\$151.6</u>	<u>\$274.7</u>	<u>2.7%</u>
Total Revenue	\$22,134.1	\$332.6	\$346.1	1.6%	\$22,747.1	\$206.2	\$613.0	2.8%

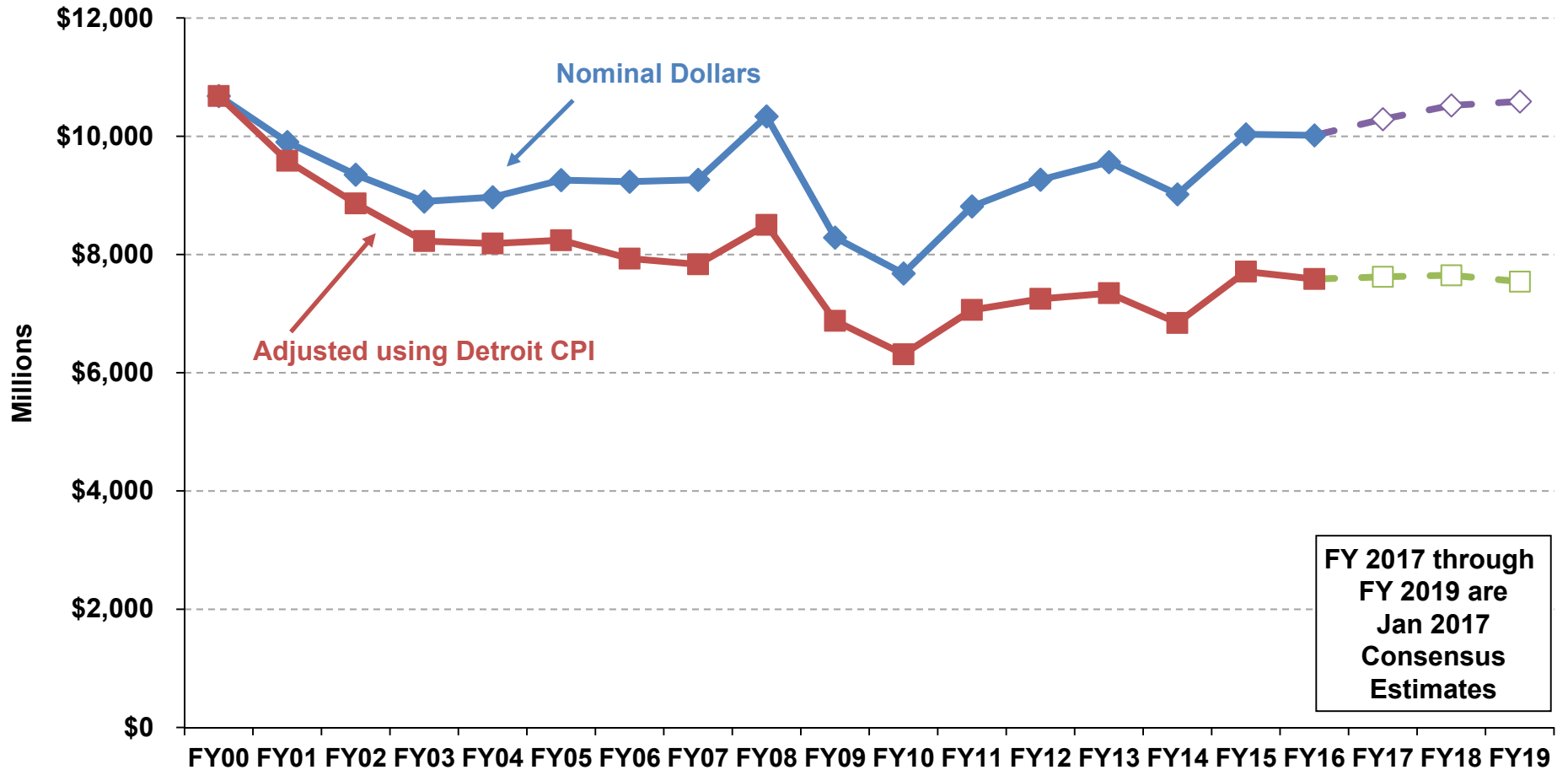
January 2017 Consensus Revenue Estimates

(Dollars in Millions)

	FY 2017-18				FY 2018-19			
	Total	\$ Chg from May	\$ Chg from FY 17	%Chg from FY 17	Total	\$ Chg from May	\$ Chg from FY 18	%Chg from FY 18
School Aid Fund	\$12,783.1	\$22.3	\$326.1	2.5%	\$13,131.5	N/A	\$348.4	2.7%
General Fund/ General Purpose (GF/GP)	<u>\$10,522.7</u>	<u>(\$84.4)</u>	<u>\$232.6</u>	<u>2.3%</u>	<u>\$10,589.3</u>	<u>N/A</u>	<u>\$66.6</u>	<u>0.6%</u>
Total Revenue	\$23,305.8	(\$62.1)	\$558.7	2.5%	\$23,720.8	N/A	\$415.0	1.8%

GF/GP Net Revenue

Nominal GF/GP revenue is expected to be \$10.3 billion for FY 2017, nearing its 2008 pre-recession figures. Adjusted for inflation, FY 2017 revenue is 29% below the FY 2000 peak level.

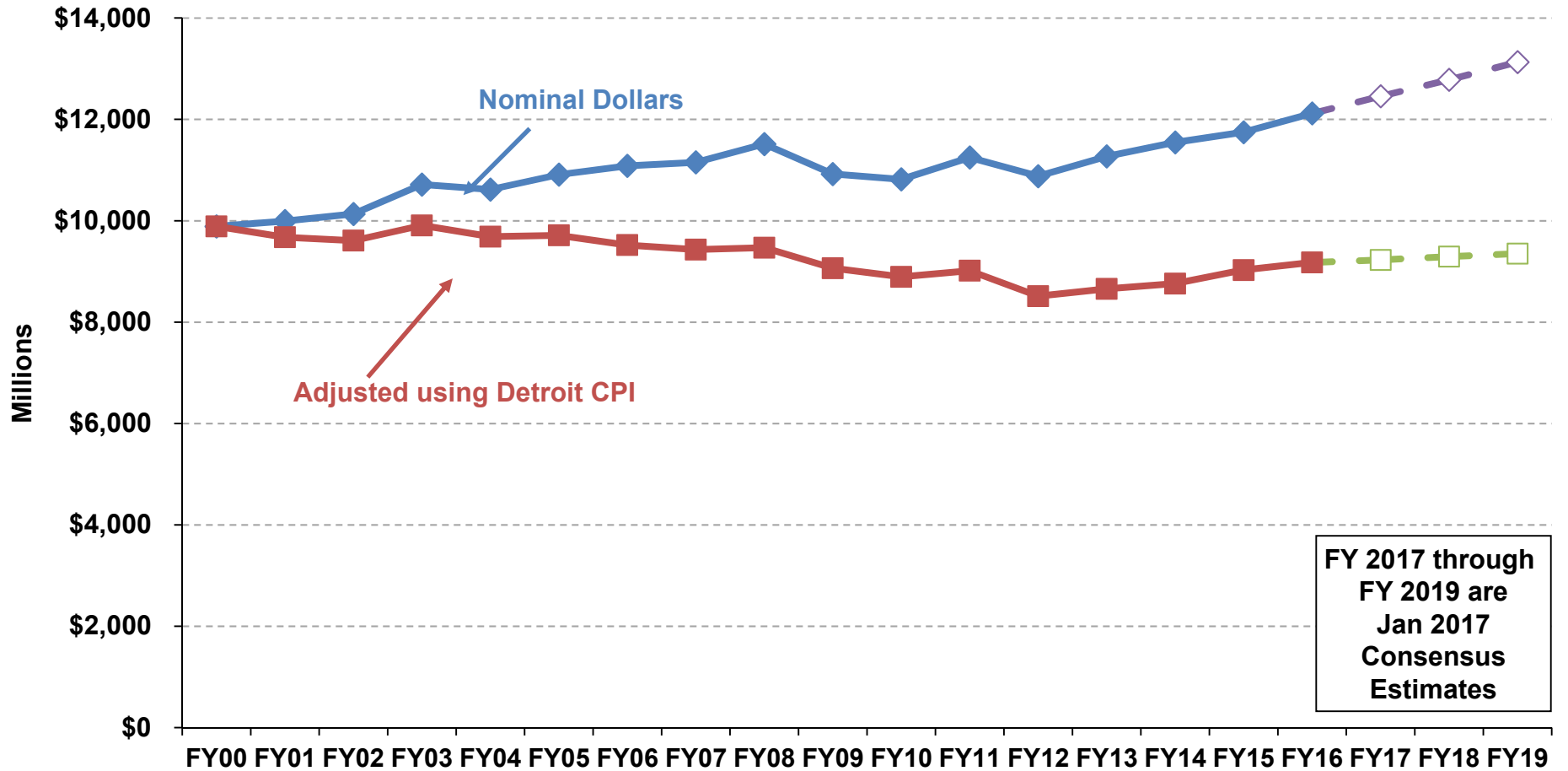


FY 2017 through
FY 2019 are
Jan 2017
Consensus
Estimates

Note: For consistency, revenue figures for years prior to FY 2010-11 have been adjusted to include sales tax revenue previously designated for statutory revenue sharing.

School Aid Fund Net Revenue

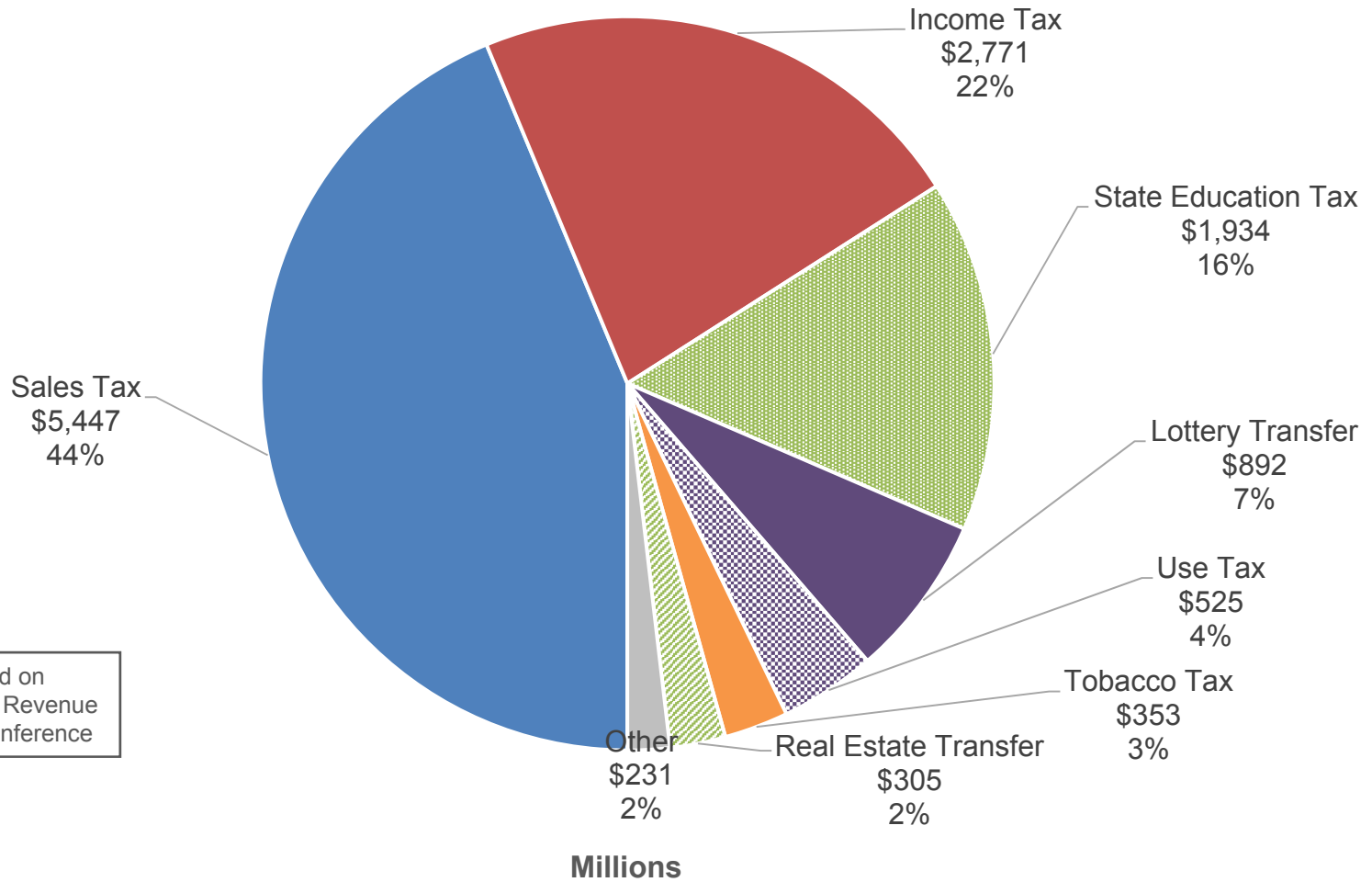
Nominal SAF revenue has grown 15.2% from FY 2010 to FY 2017. Adjusted for inflation, however, FY 2017 revenue is 6.7% below the FY 2000 level.



FY 2017 through
FY 2019 are
Jan 2017
Consensus
Estimates

SAF Revenue Sources

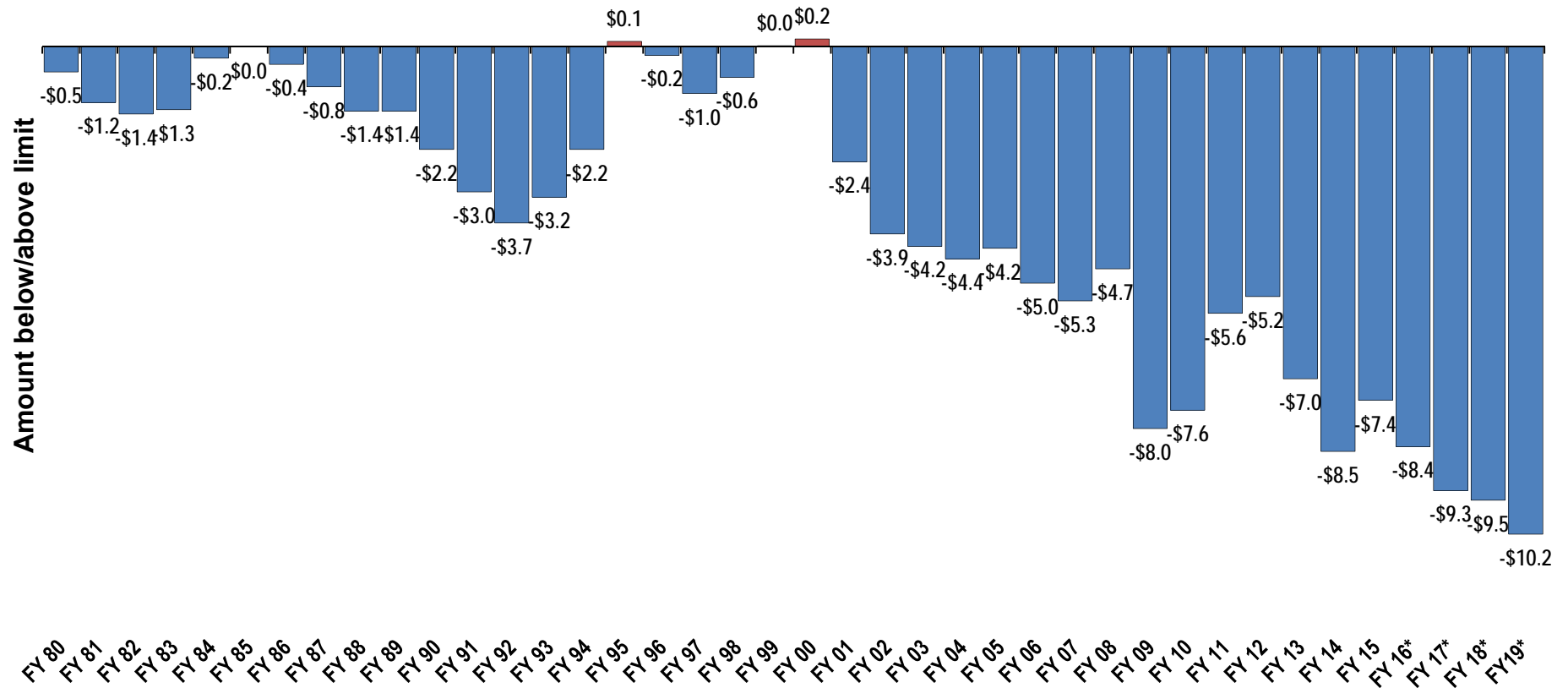
Sales Tax is the largest revenue source, contributing nearly half of the **\$12.5 billion** in total estimated SAF revenue for FY 2016-17.



*Figures based on January 2017 Revenue Estimating Conference

Constitutional Revenue Limit (Billions of Dollars)

Total state tax and other revenue collections are \$9.3 billion lower than the limit set in the State Constitution (9.49% of state personal income) for FY 2017.



*Jan 2016 Consensus Estimates

GF/GP Budget

General Fund Balance Sheet

(Dollars in Millions)

	<u>FY 2016</u>	<u>FY 2017</u>
Beginning Balance	\$694.7	\$608.7
REVENUE		
General Fund/General (GF/GP) Revenue	\$10,015.4	\$10,290.1
HMO Use Tax	413.5	105.8
Other revenues	16.4	20.9
<u>Local Revenue Sharing</u>	<u>(468.5)</u>	<u>(471.1)</u>
<u>TOTAL REVENUE</u>	<u>\$9,976.8</u>	<u>\$9,945.7</u>
EXPENDITURES		
YTD Appropriations	\$9,756.8	\$10,101.5
Transportation	400.0	0.0
Budget Stabilization Fund (BSF)	95.0	75.0
Lapses/Adjustments	(189.1)	(100.0)
<u>Other Caseload/Baseline Adjustments</u>	<u>0.0</u>	<u>0.0</u>
<u>TOTAL EXPENDITURES</u>	<u>\$10,062.8</u>	<u>\$10,076.5</u>
Current year Revenues - Expenditures	(86.0)	(130.8)
ESTIMATED ENDING BALANCE / (SHORTFALL)	\$608.7	\$478.0

Major General Fund Budget Pressures

- **Transportation** - Road funding package enacted in 2015:
 - Increased motor fuel taxes from 15 cents per gallon (for diesel) and 19 cents per gallon (for gasoline) to 26.3 cents per gallon on January 1, 2017 (raises roughly \$400 million per year).
 - Increased vehicle registration taxes by 20% beginning January 1, 2017 (raises roughly \$200 million per year).
 - Increases Homestead Property Tax Credit by altering various parameters: creates estimated GF/GP loss of **\$206 million** per year beginning in FY 2018-19. (Assumed in January 2017 CREC estimate.)
 - Diverts income tax revenue currently allocated as GF/GP funds to transportation purposes beginning in FY 2018-19:
 - FY 2018-19: **\$150 million** (Assumed in January 2017 CREC estimate.)
 - FY 2019-20: **\$325 million**
 - FY 2020-21: **\$600 million**

Major General Fund Budget Pressures

- **Medicaid Financing**

- Recent federal guidance indicated that state's Use Tax on Medicaid Managed Care Organizations (MCOs) had to be discontinued by the end of 2016 (3/4 of FY 2016-17 affected). Replaced with HICA.
- Health Insurance Claims Assessment (HICA) sunsets mid-year in 2020; if assessment isn't extended, it would create an additional budget hole of over **\$88 million in FY 2019-20** and **\$357 million per year in FY 2020-21**.

- **Medicaid Expansion Match Costs**

- Originally 100% federally funded; five percent match costs began January 1, 2017, phasing up to ten percent match costs begin January 1, 2020.
- Projected costs increasing by **\$60 million in FY 2017-18** to roughly **\$200 million in FY 2020-21**.
- Discontinuing expansion and shifting mental health and other costs back to state would cost **\$238 million** or more per year.

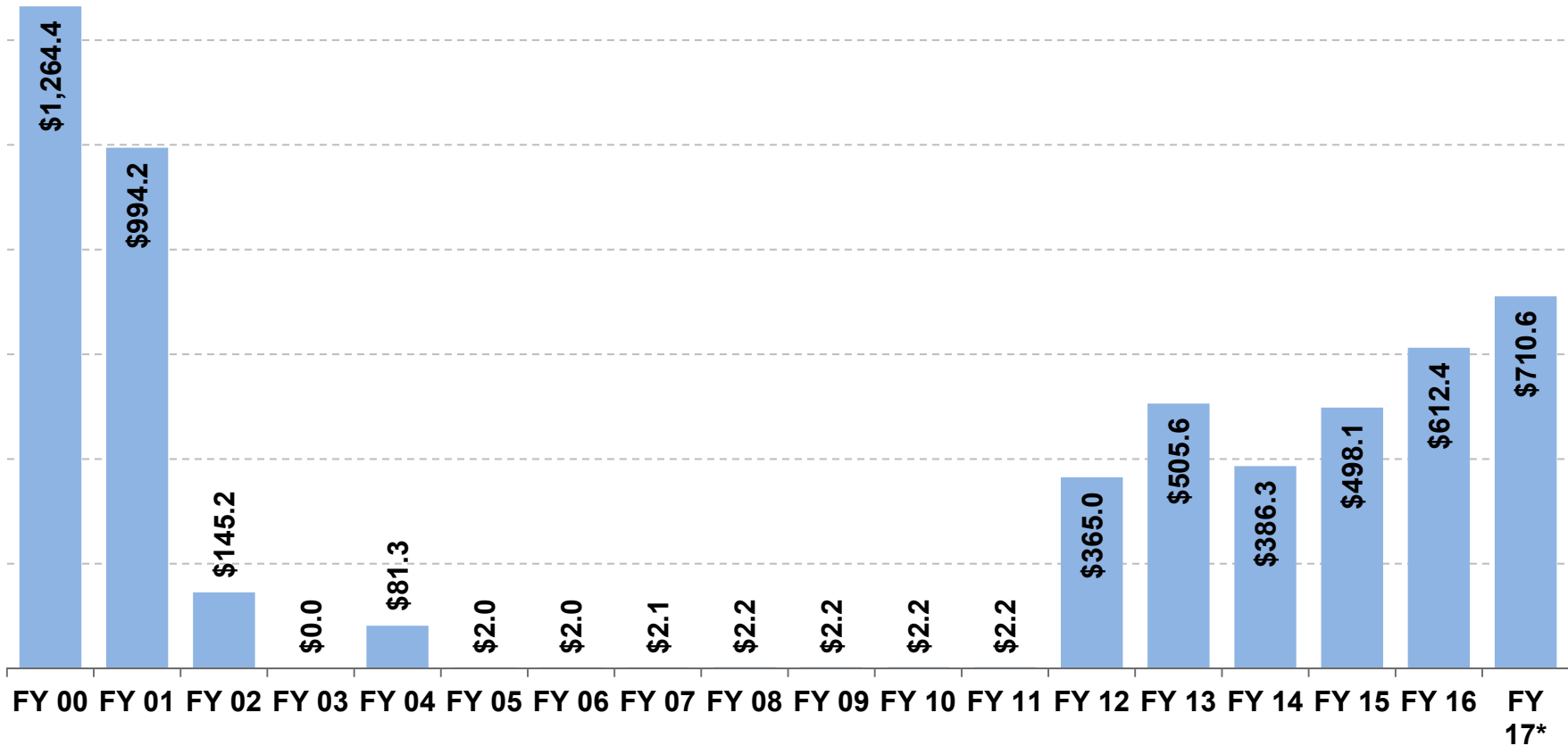
Major General Fund Budget Pressures

- **Personal Property Tax Reform**
 - All state losses/costs directed to General Fund.
 - Total projected costs grow as follows as larger personal property exemptions become effective:
 - **\$96.4 million** in FY 2015-16
 - **\$380.9 million** in FY 2016-17
 - **\$410.8 million** in FY 2017-18
 - **\$438.0 million** in FY 2018-19
- **Detroit Community School District**
 - GF/GP contributing \$72.0 million per year to offset redirected local school operating taxes, which are now paying down former DPS debt.
- **New GF/GP Issues:**
 - Potential Income Tax revisions, reduction, elimination?
 - University and Community College funding: Additional increases tied to performance metrics and tuition restraint?
 - Revenue Sharing: Additional increases for cities / villages / townships?
 - Additional Budget Stabilization Fund deposits?

Budget Stabilization Fund Balance

The estimated FY 2017 BSF balance is 3.1% of combined GF/GP and SAF revenues. The statutorily suggested FY 2017 deposit to the BSF would be an additional \$65.2 million, which would bring the balance to \$775.8 million or 3.4%.

Millions of Dollars



* HFA Estimate

School Aid Budget

FY 2016-17 School Aid Fund Balance Sheet

	FY 2016-17	FY 2017-18
BEGINNING BALANCE	\$168.2	\$143.5
REVENUE		
School Aid Fund (SAF) Revenue	\$12,457.0	\$12,783.1
HMO Use Tax	\$52.6	\$0.0
General Fund/General Purpose (GF/GP)	\$218.9	\$57.4
Community District Education Trust Fund (DPS)	\$72.0	\$72.0
<u>Federal Funds</u>	<u>\$1,818.6</u>	<u>\$1,818.6</u>
TOTAL REVENUE	\$14,619.1	\$14,731.1
EXPENDITURES		
School Aid (FY17 Enacted/FY18 Baseline)	\$14,146.3	\$14,135.7
<u>Higher Ed/Community Colleges</u>	<u>\$497.5</u>	<u>\$498.2</u>
TOTAL EXPENDITURES	\$14,643.8	\$14,633.9
CURRENT YEAR: REVENUES - EXPENDITURES	(\$24.7)	\$97.2
TOTAL ENDING BALANCE	\$143.5	\$240.7

Major School Aid Budget Pressures

- Elimination of Medicaid HMO Use Tax
 - \$206.7 million revenue source for FY 2016
 - Feds disallowed this as a Medicaid financing source, and it ended January 1, 2017.
 - Reduces SAF revenues by \$154.1 million for FY 2017 (collected for ¼ of FY 2017), which was backfilled with one-time GF/GP revenue.
 - Baseline FY18 budget assumes elimination of the additional GF/GP, so entire HMO Use Tax loss must be absorbed through SAF revenue growth.
- Income Tax
 - Revisions, Reductions, Elimination?
- MPSERS Costs
 - Investment Returns - FY 2015: 2.6% increase. FY 2016: 7.6% increase. (Assumed Rate: 8% Basic/MIP, 7% Hybrid)
 - MPSERS Payroll grew 1.0% for FY 2016 (Assumed Rate: 3.5%)
 - Legislative interest in closing pension and replacing with a DC plan.
- Foundation Allowance Increases
 - A \$60-\$120 2x formula increase (1.6% of current minimum) would cost \$153 million for FY 2018.



www.house.mi.gov/hfa